



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Responses to Comments on the Draft Green Finance Taxonomy March 2022

Background

Treasury released in June 2021 the draft Green Finance Taxonomy (GFT) for public comments. Over 30 institutions provided more than 440 comments, statements, queries and recommendations. Comments covered general elements as well as all 46 economic activities of the GFT.

List of Commentators

- 1) Alexander Forbes
- 2) Allan Gray Investments
- 3) Association of Cementitious Material Producers
- 4) Chemical and Allied Industries Association
- 5) City of Cape Town Municipality
- 6) Coronation (Beta Test)
- 7) Development Bank of South Africa
- 8) Eskom
- 9) FirstRand Bank Limited (including RMB and FNB divisions)
- 10) Futuregrowth
- 11) Green Building Council of South Africa (GBCSA)
- 12) Imperial Logistics
- 13) Independent: Kate Rivett-Carnac
- 14) Independent: Tebogo Mohlahlana
- 15) Independent: Gordon Laing
- 16) Industrial Development Corporation
- 17) JustShare
- 18) Land Bank
- 19) Momentum Investments
- 20) Nedbank

- 21) NinetyOne SA
- 22) Old Mutual (Beta test)
- 23) Principles for Responsible Investment (PRI)
- 24) SAICA CFO Forum
- 25) South African National Biodiversity Institute
- 26) Sanlam (Beta test)
- 27) Sasol
- 28) The Banking Association South Africa (BASA)
- 29) The Green Connection
- 30) True North Partners South Africa
- 31) Water Research Commission
- 32) Wilderness Foundation Africa, WWF-SA, Sustainable Finance Coalition

Responses

The Version 1 taxonomy represents the first formal steps to a comprehensive definitional approach for what is green and sets the foundation on which future developments can be made. Noting that the scope, coverage, potential roles and references for the GFT may be broadened and deepened over time, and that the Version 1 GFT does not cover the full range of green economic activities. Thus many comments will be recorded under a List of Developmental Aspects, for future consideration and developments.

The taxonomy development process sought to ensure ambition and international alignment in green definitions, and transitional considerations are under consideration for future developments. The taxonomy cross-referenced and integrated equivalent domestic alternative benchmarks where these were available, and did not introduce additional benchmarks or requirements, except for Buildings. The taxonomy is intended to be a living document, to be updated and expanded over time through a governance process. The taxonomy is intended to support a common platform for policy development and underpin regulatory guidance as it relates to green assets and sustainability.

The comments were summarised and categorised into themes to identify priority areas for attention and whether the responding action was relatively simple or required significant further study and consideration. Responses have been provided below, together with a table indicating the amendments made.

	Summary of Comments	Response
1	<p>Additional economic activities</p> <p>Feedback indicated that remaining EU economic activities that are not in the GFT should be included over time. Additionally, calls for the inclusion of agriculture related economic activities were emphasized along with numerous other projects and economic activities that include desalination</p>	<p>Development of further technical standards and economic activities is a maintenance instance in the prospective Taxonomy Governance Process.</p> <p>The specifics will be identified in a register of focus areas for future development.</p>

	<p>projects, nature-based solutions, Ecosystem conservation projects, Aquaculture, Sustainable Aviation Fuels, R&D projects, etc.</p>	<p>This will be clarified in communication materials accompanying the GFT V1 release.</p>
2	<p>Need for transition related economic activities and standards</p> <p>Comments indicated that just transition needs to be considered similar to other emerging markets. Feedback particularly indicated the need for transition interventions to be recognised for specific sectors and economic activities to accommodate for those more difficult to decarbonise.</p>	<p>Development of (or inputs towards) a first transition taxonomy is under consideration</p>
3	<p>Encourage a more comprehensive consideration of social contribution</p> <p>Feedback indicated the need to expedite the introduction of a Social Taxonomy or similar that recognises contribution to social objectives of the country.</p>	<p>Development of (or inputs towards) a social extension to the GFT is under consideration; this could lay the foundations for a fully-fledged social taxonomy that may be undertaken in future.</p> <p>This will be clarified in communication materials accompanying the GFT V1 release.</p>
4	<p>Quality data impediments to using the taxonomy</p> <p>Concerns have been raised regarding the availability of quality data needed to ensure adequate assessment with the requirements of the taxonomy.</p>	<p>Data and efficient/streamlined/affordable access are pervasive and systemic challenges. The challenge may be reduced through market action or through centralized support and is beyond the scope of this project.</p> <p>The data challenge requires some initiative from users, and through the Beta testing has shown that workarounds can be formulated. These will be captured in Beta case studies.</p> <p>Recommendations will be made to the Taxonomy Working Group (TWG) and Sustainable Finance Initiative, for further consideration</p>
5	<p>Challenges with expertise and capacity to apply taxonomy</p> <p>Organisations have indicated that the assessment process is very onerous and may deter taxonomy uptake due to significant resources required to ensure adequate assessment (many still find the Taxonomy overwhelming and particularly difficult). Additionally, feedback indicates that investors may not have the level of expertise in all the taxonomy sectors to conclude on taxonomy alignment. Furthermore, due to the demanding nature of determining taxonomy alignment, the use of the taxonomy may favour only those organisations with adequate resource capacity and skills thereby limiting uptake by smaller organisations.</p>	<p>Update the taxonomy guidance materials incorporating suggestions regarding ease of use where practical.</p> <p>Make optimal use of the engagements planned for Phase 2</p> <p>Recommendations to TWG for further capacity building support to be considered</p> <p>Recommend enabling environment implementation (deepening) the taxonomy embedding, that may reduce barriers and challenges and be an important uptake driver.</p>

6	<p>Demands for further localisation to local benchmarks</p> <p>Feedback raises caution against the applicability of EU taxonomy in SA due to the slower pace at which SA transitions. Comments for certain economic activities illustrate that metrics and thresholds may be too stringent for SA.</p>	<p>Clarification to market will be contained in communication materials accompanying the GFT V1 release, concerning (i) transition taxonomy and its applicability for those in (meaningful) transition; (ii) the rationale and necessity for harmonisation of the GFT standards.</p> <p>The rationale and economic and financial implications concerning alignment (both with alignment with differing extents of misalignment and necessary related market signals) is identified as a further area of study, so that the decisions made may be more fully informed beyond initial consensus and recommendations for best practice.</p> <p>Multilateral cooperation on the issues of harmonisation (or interoperability) of national / jurisdictional taxonomies is under review</p>
7	<p>Clarify disclosure frequency and monitoring, and provide templates</p> <p>Feedback regarding disclosure concerns:</p> <ul style="list-style-type: none"> 33) Creation of standardised disclosure templates 34) More clarity required on reporting expectations e.g., required frequency of alignment regarding assessments 35) More clarity as to who monitors green defaults or adherence with the taxonomy 	<p>Update the taxonomy guidance materials indicating (voluntary) use, and reporting and monitoring good practice.</p> <p>Some templates are anticipated to be developed as part of Phase 2 project, depending on the type of pilot projects delivered.</p>
8	<p>Geographic application of the taxonomy</p> <p>Feedback requesting the need to define how taxonomy application works when a company operates in multiple countries e.g., if sustainability-linked finance is related to particular outcomes across a multi-country project can revenues outside of South Africa be included as eligible.</p>	<p>Update the taxonomy guidance materials for clarification and simple explanation.</p>
9	<p>Insufficient/inadequate stakeholder consultation</p> <p>Multiple institutions expressed concern that not enough stakeholder engagement was conducted to include their views. Some raised concerns on major risks (proposing reasons to delay the release).</p>	<p>Clarification to market will be contained in communication materials accompanying the GFT V1, concerning:</p> <ol style="list-style-type: none"> 1. The voluntary nature of the taxonomy; 2. The governance mechanism functioning; 3. The development process undertaken, including stakeholder engagement; 4. The rationale to release the tool for market use and feedback, for update;

		<p>5. The identification of key areas of technical standards development to propose to be contained in the ‘Listing of developmental aspects’(as updated from time to time).</p> <p>Considering the voluntary nature of the tool and the inclusive as well as the extensive outreach and engagement approach, this points to potential need for continued awareness raising.</p>
10	<p>Other comments raised</p> <ol style="list-style-type: none"> 1. Urgency and ambition of the taxonomy 2. Need for assurance 3. Need for more clarity on what verification is required for certain economic activities and who will provide these types of verification 4. Clearly define scope 1 and 2 emission boundaries 5. Call for the development of other objectives so that all planetary boundaries are included 6. Concerns raised that the DNSH criteria related to legislation is not sufficient to safeguard environmental degradation 7. Consideration needs regarding setting metrics/thresholds in-line with GBCSA or Edge accreditations for green buildings 8. More clarity on source of definitions and thresholds used in the taxonomy 	<p>Update the taxonomy materials indicating clarity on verification, ambition, urgency, assurance, and emission boundaries</p> <p>A series of briefing notes are being developed that will provide:</p> <ol style="list-style-type: none"> a. Step by step details of how the taxonomy was developed and how it leverages international best practice (including informational sources) and domesticates aspects b. Comparison of the Green Finance Taxonomy with international precedents c. Process of taxonomy maintenance and how taxonomy adjustments will be incorporated <p>Further coordination undertaken with GBCSA and other parties concerning IFC EDGE; revision made to Buildings section</p>

Taxonomy challenge	Amendment	Comment and next steps
<p>Transmission and distribution of Electricity – substantial contribution to climate change mitigation criteria</p> <p>'Installation of T&D transformers that comply with the Tier 2 (2021) requirements from Regulation 548/2014 on the eco-design of small, medium and large power transformers and, for medium power transformers with highest voltage for equipment not exceeding 36 kV, with AAA0 level requirements on no-load losses set out in standard EN 50588-1'</p> <p>Draft criteria reference EU regulation in the absence of SA equivalent</p>	<p>Removed criteria related to this specific element from the technical standard.</p>	<p>This was one of multiple options, and others that may potentially apply remain in the taxonomy. The removal does not obstruct the taxonomic evaluation of T&D infrastructure but reduces by one the options available by which simple proxy qualification might be accomplished. EU regulations in the original are generally replaced in the taxonomy with domestic alternatives; as no domestic alternative has been identified and the functionality of the technical standard is not severely reduced by this, the project team recommends this remains removed.</p> <p>In future, domestic eco-design standards for T&D infrastructure may come into existence, and the governance mechanism may inform relevance to a future taxonomy iteration.</p>
<p>Passenger cars, road commercial vehicles and road freight transport – substantial contribution to climate change mitigation criteria</p> <p>Substantial contribution criteria related to vehicles of category M1 and N1 lack South African specific vehicle emissions regulations and standards for threshold determination</p>	<p>Remove substantial climate change mitigation contribution criteria related to vehicles of category L, M1 and N1</p>	<p>As such, vehicles of these types cannot be qualified at this time through the Version 1 GFT.</p> <p>Given that category L vehicles include powered bicycles, motorcycles and commercial tricycles, the development of eco standards is recommended as a complementary market stimulation and alignment mechanism.</p> <p>Given that most passenger vehicles cannot be classified according to the taxonomy, this may be a substantial gap. However, the gap lies predominantly in the policy and regulatory arena, whereas the taxonomy would refer to a relevant regulatory instrument.</p> <p>The Version 1 GFT still contains a technical standard for 'Commuter road, passenger rail and freight rail transport', as a possible alternative.</p> <p>In future, should ambitious vehicles standards come into existence and remain relevant to taxonomy users for inclusion, the governance mechanism may inform relevance to a future taxonomy iteration.</p>

<p>Manufacture of Biogas, Biomass or Biofuels</p> <p>Comments illustrated the following issues:</p> <ul style="list-style-type: none"> • Substantial contribution criteria should be specified by legislation. • The definition of “sufficient requirements” and “robust” as adopted in the EU Taxonomy, requires more specificity to be practical and standardised. • Biogas and biofuels are stated to likely be unsustainable in the South African context unless explicitly derived from agricultural residues and other organic wastes that otherwise pose pollution risks. There is no opportunity for crop-based biogas or biofuels without unacceptable water, biodiversity, or food security risks. 	<p>Removed Manufacture of Biogas, Biomass or Biofuels standard</p>	<p>Market based proxies were introduced into the draft taxonomy, however knowledgeable technical proponents did not consider it appropriate, seeking regulatory intervention instead. On this basis, the existing content was removed, and no classification (even against market standards’ proxies) is possible in Version 1 GFT. To note, the challenge concerning pollution and water risks are addressed through the Do No Significant Harm (DNSH) criteria for the water and pollution prevention criteria. Nonetheless, the total utility of the standard was deemed to be relatively limited when specific and satisfactory domestication is not currently possible, and on this basis the project team have removed the whole standard at this time.</p> <p>The development of biogas, biomass or biofuels (in the particular holistically sustainable applications) may be an important complement to the range of renewable energy projects relevant to South Africa,.</p> <ul style="list-style-type: none"> • In future, should ambitious and comprehensive biogas, biomass or biofuels standards come into existence, the governance mechanism may inform inclusion in a future taxonomy iteration.
<p>Construction of New buildings and Building renovation</p> <p>Comments illustrated the following issues:</p> <ul style="list-style-type: none"> • Several metrics and thresholds reference EPCs. Concerns raised regarding EPCs in South Africa that only apply to certain occupancy classes (to date) and to buildings of certain sizes. Also, EPCs in South Africa only apply to existing buildings, measuring operational performance. GBCSA states that unlike European EPCs, South African EPCs are not a rational design assessment as EPCs measure operational performance (which includes tenant loads) to SANS 1040-XA EUIs, which exclude tenant loads. The impact on the rating outcome (i.e. 	<p>Redesigned criteria for New buildings Building Renovations.</p>	<p>The Version 1 GFT includes a dual approach:</p> <p>As a taxonomy-design principles-aligned benchmark, it has been the approach of the project team to ensure a net zero carbon standard is included; this comprises a ‘top-level’ ambition and is aimed to be in-step with actors driving ambitious market transformation. Achieving this MSC whilst meeting all other requirements of the taxonomy, would qualify the economic activity as ‘taxonomy aligned’ and a further statement of performance for this sector of ‘top-level’ alignment can be expressed.</p> <p>This is supplemented to provide for the challenges and the ultimate ambition of market transformation. I.e., market transformation encouragement objectives supersede other principles of design. In this supplement to the MSC Technical Screening Criteria, two further options have been allowed: ‘entry-</p>

<p>A, B or F) will only be fully understood after 2022 once the first round of legislated EPCs is processed.</p> <p>Stakeholders suggested either the explicit recognition of IFC EDGE and Green Building Council of South Africa Green Star certifications as proxies for taxonomy, or the alignment of technical performance standard requirements with these instruments, to simplify and align existing industry practice in South Africa.</p> <p>Recommendations concerning particular technical aspects of the climate change mitigation 'Make Significant Contribution' thresholds and specifics, including:</p> <ul style="list-style-type: none"> a. Applying C40 New Building Programme Net Zero EUI targets b. Consider whether air-tightness (which is voluntary under Green Star but currently explicitly required in the GFT) should be included and is relevant (though GBCSA acknowledge the value of the measure) c. Challenges with industry practice and access to GWP data d. A series of recommendations for aligning to Green Star thresholds (some being more onerous, others being less but on the basis of market availability) <p>Also recommend for the recognition of proxies for climate change adaptation MSC requirements.</p> <p>Further comments are made that may pertain to future MSC technical standards for other environmental objectives (e.g. water efficiency, circularity etc.)</p>		<p>level' and 'mid-level' which would still qualify for taxonomy alignment. Given this differentiated approach, transparency is vital, and the qualifying economic activities must include a further statement of performance for the level achieved.</p> <p>This is particular to the environmental objective for 'climate change mitigation'</p>
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